



Transformation of Microfinance in Bangladesh

Microfinance is provided in Bangladesh not only by the microfinance institutions (MFIs) but also by the cooperatives, NGOs, public sector programmes, banks and other formal and informal financial institutions including the Grameen Bank. For the NGO-MFIs, microfinance is a core activity. Nevertheless, the MFIs lead the microfinance industry within a monopolistic framework. Over the last nearly six decades, microfinance has been playing an eminent role in helping the poor and low-income households to get out of poverty. In general, microfinance means providing very poor families with very small loans (microcredit) to help them to engage in productive activities or to grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, transactions, insurance, etc.) as it has been realised that the poor and the very poor, who lack access to the traditional formal financial institutions, require a variety of financial products. Thus microfinance may be defined as small loans given to impoverished people to help them become 'self-employed'. It refers to the whole range of financial services for poor people; including loans, savings, credit, money transfers, insurance and pension. Savings with the MFIs by the members is also growing over time showing clear and huge savings potential. The clients need quality saving services and dependable organisations to save with.

On the other hand, demand for money to provide as credit is also increasing for the MFIs. To avail this opportunity, many MFIs having grown mature, have entered the formal financial system (mostly banks) to fund their growth and provide diversified financial services as demanded by their target markets. Over the years, efforts have become stronger than in the

past in mobilising local resources by bringing in various savings and credit products. The savings products of MFIs now include daily savings, mandatory savings, voluntary savings, forced savings, contractual savings, and time deposits. The MFIs are also becoming more responsive to the demand for credit facilities. Over time, the credit products have been diversified. Today there exist more than 15 credit products including daily credit, leasing loans, housing loans etc.

Again, there is a need for the MFIs to judiciously set the price of savings, credit or other products. Moreover, since the microfinance industry is constantly evolving and growing as new issues emerge, the role of marketing in the MFIs is one of the vital and most important factors.

For MFIs to sustain and serve their purpose, professionalism and cost-consciousness are important factors on which they have to constantly cast their eyes. They need not remain bound within the social objectives alone as a safe custody. In fact, it is time to realise that MFIs have both social mission and commercial motive. The concept of Social mission assumes that more and more poor people should be covered and continuity of the services should be maintained through reusing the recovered fund for additional credit. The commercial motive means giving due importance to financial sustainability of MFIs in terms of employment generation, contribution to GOP and export earnings. This will enable the MFIs to work for the welfare of the people satisfying their needs regardless of who are rich or who are poor. Social mission of MFIs is to go to the doorstep of the poor people with appropriate financial services with a view to eradicating poverty. Thus the term 'commercialisation' in the microfinance industry of Bangladesh is a promising idea and could contribute much in terms of sustainability of the industry.

In Bangladesh, MFIs contribute significantly to the achievement of the United Nations Sustainable Development Goals (SDGs) especially in terms of the goal to eradicate the poverty. Thus, over the years, microfinance has been playing a prominent role in helping the poor and low-income households to get out of poverty.

No doubt, the poor households face many constraints in trying to save, invest, and protect their livelihoods. As such they take financial intermediation seriously and devote considerable effort to finding workable solutions based on their financial needs that identify the constraints in carrying out business, and find out solutions to those problems. Thus the poor people value financial services, want more of them, worry when they do not have them; but are often frustrated by them when they do get them. They know that managing money is important, and that managing money well gives them a better chance to manage their lives and livelihoods well. In this context, the merit of linkage of formal and informal systems of financial operations is worth exploring. Whereas the formal system ensures access to large and cheap financial source, the informal system facilitates convenient financial transactions according to need.

Obviously, the most important hindrance for the poor is lack of education and poverty. To reduce both, microfinance has played an important role to uphold the country's economic progress. For example, although the individualistic approach to disbursement of financial services has less hassle, the transaction costs and risks are high. On the other hand, although the group formation cost is high in the short run, it is highly productive in the long run. From the empowerment point of view, the MFIs can utilise the credit groups with whom they

have credit relationship for a longer period. In order to streamline their operations, appropriate policies are required, such as ensuring the effective operations of microfinance services, realistic approaches to subsidy, poor-friendly banking policies, availability of efficient management information system and supportive legal processes.

Although there has taken place significant innovation as a result of which some exciting activities of microfinance have now emerged in Bangladesh, but the need is to adopt many more innovations to design and provide access to a wide range of financial services that each specific group needs and demands during the emerging new vision of the digital world in the coming decades.

Further, many necessary elements are needed to scale up in microfinance. A great deal of the knowledge about the requirements of sustainable microfinance already exists. High-performing MFIs have developed innovative methodologies to extend credit, savings and other services to poor clients. A number of banks and other institutions with nationwide distribution systems are beginning to take active interest in reaching the poorer clients. Advances in information technology have the opportunity to lower the cost and risk of providing microfinance to the poor. The challenge is to mobilise this knowledge and apply it on a much wider scale, creating financial systems that work for the poor and boost their contribution for economic growth.

The question arises as to how the microfinance industry would be scaling up services to reach the poor households who still lack access to essential financial services. Successful MFIs have proven that providing financial services to the poor can be an effective means of poverty reduction and can also be a profitable business. At present, there is a greater consensus than ever before on what is needed to make microfinance sustainable. But a major constraint of sustainable microfinance is limited institutional and managerial capacity at the level of retail microfinance institutions, as reflected in inadequate management information systems, poor strategic planning, and high operating costs. There is also a marked shortage of organisations that can provide safe savings facilities for the poor and can sustainably mobilise these domestic savings for on-lending.

The future of microfinance basically depends on a few stakeholders in the country's economy. The lenders and financial institutions (e.g. banks) play with microfinance to uplift the poor. One key issue is the pyramid status of microfinance and how they act and needs to act in future. It is true that the microfinance sector is overwhelmingly dominated by a few large MFIs who are the front-runners whose scale of operations and volume of surpluses qualify them for investors. Most of them serve the upper layer of the pyramid, some serve a mix of stronger and weaker clients, and only a few focuses specifically on the extreme poor clients adequately, because it is almost mutually exclusive to serve the very poor and be profitable enough for sustainability.

Thus one may conclude that the story of Bangladesh's microfinance is associated with both government and NGO-MFI initiatives that took that started since the 1970s. Over time, the sector has incorporated lessons both from the microfinance movement in the country and similar participatory development programmes across the world.

The future of microfinance is increasingly becoming digital, shifting from traditional group-lending models to technology-driven, personalised financial services (e.g. in the form of larger volume of microfinance to microenterprises) that improve efficiency and reach. Key trends include mobile banking, AI-driven credit scoring, and expansion into digital payments, aiming to provide sustainable financial services to CMSMEs in Bangladesh.

InM Participates in PACE Project Evaluation of PKSF

International Fund for Agricultural Development (IFAD) has recently initiated the project performance evaluation (PPE) of its 'Promoting Agricultural Commercialization and Enterprises (PACE)' Project which was implemented by PKSF by its partner organisations. The PPE is being carried out by IFAD's Independent Evaluation Division in which InM researchers are providing research and advisory support including collection of field level data and information for the evaluation. The objectives of the evaluation are to: provide an independent assessment of the overall results of the project and generate findings and recommendations for the design and implementation of ongoing and future IFAD operations in Bangladesh.

InM Undertakes Primary Market Research for BMRC Feasibility Study for Bangladesh

Access to long-term, affordable housing finance remains a significant constraint to the development of Bangladesh's housing sector, particularly for the low and middle-income households. Rapid urbanisation, sustained population growth, and rising land and construction costs have intensified housing demand, while the supply of affordable housing finance continues to lag behind escalating market demands. The absence of stable, long-tenor funding sources for mortgage lending has limited the ability of financial institutions to scale up housing finance and offer affordable loan terms.

The International Finance Corporation (IFC), a member of the World Bank Group, has commissioned a feasibility study for establishing the Bangladesh Mortgage Refinance Company (BMRC) that will function as a specialised secondary mortgage liquidity facility, providing long-term refinancing to primary mortgage lenders (PMLs) and thereby would strengthen the sustainability and depth of the housing finance market in Bangladesh.

The primary market research for the feasibility study focusing on the demand side of the prospective households is currently being conducted by InM in association with IFC and the Altair Consultancy and Advisory Services Ltd of London.

WCAD Programme Review and Coordination Meeting Held

InM, in collaboration with Water.org, organised a day-long Programme Review and Partner Coordination Meeting under the WaterCredit Adoption (WCAD) Programme on 2 February 2026 at the BASA Foundation Head Office in Uttara, Dhaka. The event brought together senior management representatives from seven WCAD partner organisations - BASA Foundation, DISA, IDF, SDC, SFDW, GUK and SDS—creating a dynamic platform for reflection, learning and strategic alignment of planned activities.

The programme commenced with a welcome address by Dr. Mustafa K. Mujeri, Executive Director of InM. This was followed by special remarks from A. K. M. Shirajul Islam, Executive Director of BASA Foundation and Abu Aslam, Portfolio Lead (South Asia) of Water.org. A comprehensive overview of the WCAD programme was presented by Md. Sajjad Kabir, Programme Manager of InM, highlighting key achievements, progress to date and ongoing challenges.

During the session, representatives from each partner organisation shared updates on programme implementation, discussed field-level challenges and presented their mitigation strategies and future action plans. The discussions were highly interactive, fostering open dialogue and collaborative problem-solving approaches among partners. The meeting also served as an effective knowledge-sharing platform, where high-performing partners shared practical strategies and lessons learned with others. This peer-to-peer exchange is expected to strengthen implementation capacity across all partner organisations and enhance overall programme performance.

The event concluded with a renewed commitment from all stakeholders to accelerate progress, address challenges proactively and ensure the continued success and impact of the WCAD programme in improving access to water and sanitation financing for underserved communities.



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